

# Report of the auditor-general to the Western Cape Provincial Parliament and council on the Central Karoo District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Central Karoo District Municipality set out on pages 4 to 75, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Central Karoo District Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes), as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

7. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an errors discovered during the 2018-19 financial year, as well as the municipal standard chart of accounts (mSCOA) reclassification in the financial statements of the municipality at, and for the year ended, 30 June 2019.

### **Contingent liabilities**

8. With reference to note 37 to the financial statements, the municipality is a defendant in various claims. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

### **Underspending of conditional grant**

9. Disclosed in note 5 to the financial statements is unspent conditional grants and receipts of R2 372 849 (2018: R2 538 556).

### **Other matters**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 76 to 86 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### **Responsibilities of the accounting officer for the financial statements**

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the Central Karoo District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting



unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

17. In accordance with the Public Audit Act of South Africa, 2004 (Act no. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic objectives	Pages in the annual performance report
Strategic objective 4 – improve and maintain district roads and promote safe roads transport	13
Strategic objective 6 – promote safe, healthy and socially stable communities through the provision of a sustainable environmental health services	15

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material finding in respect of the usefulness of the selected strategic objectives is as follows:

**Strategic objective 4 – improve and maintain district roads and promote safe roads transport**

22. I did not raise any material findings on the usefulness and reliability of the reported performance information for strategic objective 4: improve and maintain district roads and promote safe roads.

**Strategic objective 6 – promote safe, healthy and socially stable communities through the provision of a sustainable environmental health services**

23. The strategic objective approved in the service delivery budget implementation plan was: to promote safe, healthy and socially stable communities in an environment conducive to integrated and sustainable development. However, the strategic objective reported in the annual performance report and integrated development plan was: promote safe, healthy and socially stable communities through the provision of a sustainable environmental health service.
24. I did not raise any material findings on the reliability of the reported performance information for strategic objective 6 – promote safe, healthy and socially stable communities through the provision of a sustainable environmental health service.

**Other matters**

25. I draw attention to the matters below.



### Achievement of planned targets

26. Refer to the annual performance report on pages 9 to 15 for information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the usefulness of the reported performance information in paragraph 23 of this report.

### Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of improve and maintain district roads and promote safe roads transport and promote safe, healthy and socially stable communities through the provision of a sustainable environmental health services strategic objectives. As management subsequently corrected only some of the misstatements, I raised a material finding on the usefulness of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
29. The material findings on compliance with specific matters in key legislation are as follows:

#### Human resource management

30. A senior manager was appointed without the post being advertised, as required by section 56(3)(a) of the Municipal Systems Act and regulations on appointment and conditions of employment of senior managers 10(2).
31. A senior manager was appointed without council approval, as required by section 56(1)(a) of the Municipal Systems Act and regulations on appointment and conditions of employment of senior managers 17(2).

#### Expenditure management

32. Reasonable steps were not taken to prevent unauthorised expenditure of R495 377 disclosed in note 30 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by overspending on specific roads votes.

## Consequence management

33. Allegations of financial misconduct laid against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by municipal regulations on financial misconduct procedures and criminal proceedings 5(4).
34. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

## Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.
36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
38. The other information I obtained prior to the date of this auditor's report includes the mayor's foreword, good governance, service delivery and performance overview, organisational development performance and financial summary. The audit committee report is expected to be made available to us after 29 November 2019.
39. When I do receive and read the audit committee report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

40. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.



41. Leadership did not exercise adequate oversight to promote good governance, as adequate consequence management processes were not implemented.
42. Leadership did not exercise adequate oversight responsibility to ensure that the strategic objectives per the planning documents were consistent with the reported information.
43. Leadership did not adequately monitor compliance with regulations to ensure that the appointment of a senior manager complied with the requirements of the Municipal Systems Act.
44. Management did not take reasonable steps to ensure that unauthorised expenditure does not recur.

#### Other reports

45. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
46. The council approved a forensic investigation into the previous year's findings regarding LG Seta funding and other matters. The investigations were still in progress at the date of this auditor's report.

*Auditor-General*

Cape Town

29 November 2019



*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected strategic objectives and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Karoo District Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.